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Report of the Meeting of Eminent Persons on Commodity Issues

Note by the Secretary-General

The Secretary-General has the honour to submit to the General Assembly, as requested in its resolution 57/236 of 20 December 2002, the report of the Meeting of Eminent Persons on Commodity Issues, which was held at Geneva on 22 and 23 September 2003. The report will also be considered by the Trade and Development Board of the United Nations Conference on Trade and Development, which will transmit its views to the General Assembly in its report on its fiftieth session.

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Report of the Meeting of Eminent Persons on Commodity Issues

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I. Introduction

1. At its fifty-seventh session, the General Assembly discussed commodity issues under agenda item 84 (b), "Macroeconomic policy questions: commodities". The General Assembly had before it document A/57/381, entitled "World Commodity Trends and Prospects: note by the Secretary-General" containing a report prepared by the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD).

2. Following its discussion on this item, the General Assembly adopted resolution 57/236 of 20 December 2002, in which, in paragraph 11 it called upon the Secretary-General of UNCTAD, within existing budgetary resources, supplemented by voluntary contributions as appropriate, to designate independent eminent persons to examine and report on commodity issues, including the volatility in commodity prices and declining terms of trade and the impact they had on the development efforts of commodity-dependent developing countries, for consideration by the Trade and Development Board at its executive session and, subsequently, by the Assembly at its fifty-eighth session. For this activity, the budgetary resources of UNCTAD were supplemented by one voluntary contribution amounting to $10,200, received from the Government of Italy.

3. The designated eminent persons (see the annex of the present report) met on 22 and 23 September 2003 at Geneva. The meeting was opened by the Secretary-General of UNCTAD and chaired by the Deputy Secretary-General of UNCTAD and the Director of the Division on International Trade in Goods and Services, and Commodities. Nine brief background notes were prepared by the secretariat, covering the issues that were expected to be taken up by the eminent persons. These are available to the Trade and Development Board in their original unedited English versions.

4. Based on their discussions, as summarized in section III of the present report, the eminent persons agreed upon a set of recommendations which are presented in section II.

II. Recommendations

5. The eminent persons believe that there is a wide range of actions that can improve the conditions on commodity markets and can help alleviate the poverty of many commodity producers, including through better crop management systems. The eminent persons have separated these proposals into short-term ones, involving urgent, immediate action in response to severe crises, with immediate discernible results; medium-term ones, involving a reorientation of policies and proposals that is eminently feasible; and long-term ones, the discussions on which should be started now but implementation of which could take time. Among the recommendations given below, the eminent persons would like to draw particular attention to our proposals in the following areas, to which they attached the highest priority:

(a) Enhanced, equitable and predictable market access for commodities of key importance to developing countries (paras. 6-7);

(b) Addressing the problems of oversupply for many commodities (paras. 9, 16 and 17);

(c) Making compensatory financing schemes user-friendly and operational (paras. 12 and 13);

(d) Strengthening capacity and institutions (paras. 18-20);

(e) Pursuing the possibilities for the creation of a new International Diversification Fund (paras. 27-29).

A. Short-term recommendations

1. World Trade Organization negotiations

6. The eminent persons note with concern the inability of members of the World Trade Organization (WTO) to come to an agreement at the fifth Ministerial Conference, held at Cancún, Mexico, from 10 to 14 September 2003. Urgent progress was needed on issues such as removal of market access and entry barriers to developing country commodity exports (e.g., tariff escalation), as well as problems relating to sanitary and phytosanitary measures and technical barriers to trade and rules of origin. Developing countries are currently the victims of subsidy policies in the developed countries, and the likely delay in international trade liberalization in this area will thus negatively affect their economic growth. It will be particularly harmful for the producers of many agricultural commodities, who are facing unfair competition from developed country farmers. The eminent persons call for a speedy resumption of the trade negotiations, which offer the best opportunity to tackle these issues.

7. Meanwhile, however, there is a need for action to compensate developing country farmers for the losses that they suffer as a result of current developed country policies. In line with the proposal by four African countries at the WTO Ministerial Conference at Cancún, the eminent persons call for an early elimination of subsidies provided in developed countries to cotton and for the compensation of the loss of earnings owing to the supplies of cotton subject to subsidies. The eminent persons call upon the international community to prioritize research on the modalities for such a compensation mechanism, working with expert organizations such as UNCTAD. The eminent persons also call for further work on the appropriateness of extending the model of the "cotton initiative" to other relevant commodities.

8. Agricultural subsidies in other countries can have a negative impact on a developing country's commodity production if they lead to the import of subsidized commodities, constraining the output of its farmers and hindering expansion and diversification possibilities. A special mechanism to enable affected developing countries to safeguard against such imports is of crucial importance.

2. Coffee

9. The eminent persons note with dismay the extreme poverty into which 25 million coffee farmers and workers have been thrust by very low prices. The eminent persons therefore call for immediate and decisive emergency action. The eminent persons suggest that the International Coffee Organization (ICO) consider

imposing an export fee, using the proceeds of the fee to help alleviate poverty arising from low coffee prices. The eminent persons urge both producing and consuming countries as well as relevant international organizations to support such a programme and associated actions by ICO covering, on the supply side, quality improvement measures, promotion of diversification and production monitoring, and on the demand side, the promotion of consumption.

3. Debt relief

10. Debt servicing and repayment expenditures of many developing countries are financed by revenues from commodity exports. The prices at which these commodities are exported, however, are determined outside the country and may decline substantially without any responsibility of the country concerned, leading to severe financial strain. Many developing countries are now in no position to service their debt because of a combination of low export prices and high oil import prices. As early as possible, mechanisms should be introduced that would better tailor debt relief efforts to the needs of commodity-exporting developing countries, in particular least developed countries and heavily indebted poor countries.

11. In the medium term, other mechanisms should be explored and established to address in a more systemic way the linkage between the problems of commodity-exporting developing countries and debt relief measures. The eminent persons call upon UNCTAD and other agencies to undertake further studies in these areas.

B. Medium-term recommendations

1. Compensatory finance

12. Compensatory finance has an important potential role in insulating developing countries from the worst effects of international price volatility, and indeed in reducing volatility. In order to be effective, such financing has to meet the following requirements:

(a) Operation on the basis of ex ante rather than ex post mechanisms (in other words, clearly linking automatic pay-outs to specific occurrences);

(b) Ease of access, in terms of technical requirements;

(c) Absence of conditionalities for receiving the finance — it should be sufficient that the country itself carries no evident blame for the specific commodity-linked loss that it suffered;

(d) The inclusion of a pass-through mechanism to actual producers and consumers.

13. The tools and mechanisms for this exist, and existing schemes should be adapted accordingly and made operational.

2. Policy design and implementation

14. The link between the development of the commodity sector and poverty is irrefutable, and Governments need the capacity to address these issues in their policy design and implementation and in international negotiations. Governments should be empowered to properly address the links between international

commodity trade aspects and national development in their policies. It would be advisable for concerned countries to consider establishing appropriate processes and institutions involving all stakeholders to effectively address those issues in the framework of a commodity strategy and/or a strategy for economically and environmentally sustainable rural development. Few countries are now in a position to have a commodity strategy; commodity issues should become an explicit part of poverty reduction strategies. The eminent persons urge the international donor community to support UNCTAD and other competent organizations in setting up capacity-building programmes and activities in this area.

3. Corporate social responsibility

15. The eminent persons recognize with satisfaction that many private sector firms are showing increased interest in applying principles of corporate social responsibility in their global operations, in line with international standards and agreements. In this light the eminent persons urge individual companies to increase their efforts to incorporate concerns related to the sustainable development of the commodity sector, the dissemination of the benefits of commodity-related activities to the disadvantaged sections of the population, and the generation of positive linkages with the rest of the economy in their corporate social responsibility commitments. The eminent persons think it is important that long-term thinking of companies gains the upper hand over short-term orientation.

4. Measures for dealing with oversupply

16. Regarding commodities facing a situation of structural oversupply, a concerted effort is necessary to bring demand and supply into balance at a point where prices are sufficiently remunerative for the average producer. In this connection, action on both demand and supply sides can be envisaged. In this light, the eminent persons stress the large potential benefits of faster liberalization of trade among developing countries. Measures aiming at the expansion of demand could include improving the quality of supplies as well as identifying new end-uses. Regarding the supply side, the main objective would be to diversify into other productive activities with better returns. Furthermore, research and development into new end-uses of commodities should be supported. Strengthening the resources of the Second Account of the Common Fund for Commodities to continue to provide support to the developing countries in these areas is emphasized.

17. In the short term, however, measures to reduce the supplies put on the market may be necessary. Where appropriate or feasible, these may include producer-consumer schemes, joint measures by producers only, and national-level measures. In this connection, the eminent persons recognize the "free-rider" problem and the operational difficulties with supply management schemes. Producer countries that face a situation of oversupply are also encouraged to take national measures — an example is Malaysia's use of a cess on palm oil production imposed in times of high prices, which is used in times of low prices to subsidize the use of palm oil in a non-traditional way, namely for electricity generation — as well as measures in cooperation with others that can address their predicament. Relevant institutions could be approached to organize meetings to examine the experiences in this area. Countries that are not party to such schemes should agree to apply a favourable interpretation of the General Agreement on Tariffs and Trade articles XI, XX and XXXVI, as well as other relevant articles of the General Agreement on Tariffs and

Trade and the WTO agreement, and to forgo using competition policy measures against such schem . Developed countries should eliminate subsidies, where feasible, to contribute to reducing oversupply.

5. Capacity-building to improve supply capacities and market entry

18. Many commodity-dependent developing countries do not have the capacity to benefit from potential market openings. Support for strengthening supply capacity in the commodity sector should be made an integral part of international assistance to commodity-dependent countries. This should include policy-level support to design and implement strategies, policies and measures for commodity-based development and diversification, the improvement of domestic research and development capacities, as well as support for the organization of small-scale producers to achieve better integration into international supply chains. Encouraging and strengthening organization of small-scale producers, processors and traders of commodities with a view to enhancing their capacities for technology absorption and for marketing of their products is important. The eminent persons emphasize the importance of assistance aimed at enabling small producers to meet quality and traceability requirements, as well as market exigencies reflected in the specifications of importing firms.

19. The eminent persons recognize that capacity-building has many different facets and that different entities such as international organizations, private companies, particularly transnational corporations, business associations, non-governmental organizations and the Governments of both developed and developing countries have their specific insights and competences. A holistic approach with consistency and complementarity, and based on a spirit of partnership among all the relevant actors, has a better chance of making a positive impact than a piecemeal approach. The eminent persons call for an organization such as UNCTAD to be entrusted with the task of convening the different entities mentioned above so that needs of commodity-dependent countries in terms of capacity-building are examined, an integrated coherent programme of capacity-building is designed, its implementation followed up and a division of labour as well as commitments are secured. The implementation of such a programme "in the field" would call for country-level arrangements, possibly led by international organizations with country presence. Donor organizations are invited to support these capacity-building activities financially.

6. Institution-building

20. Weak institutions and weak legal and regulatory frameworks (for example, land titles, problems with ownership rights, export regulations, bankruptcy rules) not only make it difficult for farmers, other producers, processors and traders in developing countries to benefit from diversification opportunities, but also, by adding costs and weakening bargaining positions, prevent them from taking a greater share in the value-added chain. Women are particularly penalized by weaknesses in these areas in combination with gender bias. In general, these weaknesses also lead to producers being directly exposed to world market price volatility and create difficulties in access to finance. It is necessary to fill the institutional and capacity gaps that are now visible in many countries. In this light, donors should enhance their support to the strengthening of crucial trade-supporting institutions, in particular inspection and certification agencies, export promotion

bodies, insurance firms, agricultural finance institutions and national and regional commodity exchanges.

7. Preferential schemes and South-South trade

21. In some cases preferential trade schemes can play a role in stabilizing and securing income of poor commodity producers, thus paving the way for subsequent development and diversification. Similarly, regional integration schemes as well as liberalization of trade among developing countries can have a role in expanding earnings from the commodity sector. The use and impact of such schemes could benefit from further research.

8. Information and analysis

22. The eminent persons recognize that developing country Governments, firms and farmers suffer from a lack of access to timely, comprehensive, accurate and user-friendly information and analysis, as well as the capacity to utilize it in decision-making at the government, firm and farm levels. Better strategic and organized information is needed at the international level for better decision-making (including in recognizing trends and real income losses resulting from terms of trade declines) and at the local level to give farmers the information they need, if possible on a real-time basis. In the first respect, the eminent persons observe with serious concern the decline in resources devoted to the analysis of commodity issues in some of the international agencies. This is a significant bottleneck for identifying and exploiting markets and diversification opportunities. Better information flow to developing countries can help Governments to make better policy decisions and is also a necessary condition for avoiding wrong investment decisions that may lead not only to losses for new investors but also to situations of oversupply. The eminent persons call for strengthening the capacity of UNCTAD and other competent international organizations to regularly disseminate specialized information and analysis covering a broad range of commodities and commodity issues and establish networks so as to contribute to market transparency, and to develop collaborative tools to facilitate the use of this information, particularly by producers.

9. Exchange of experiences on commodity policies

23. The eminent persons note the interesting experiences of developing countries in devising innovative approaches to strengthen their commodity sector and cope with negative aspects (e.g., volatility). There is a need for more exchange of experience on commodity-related policy options and scope for greater South-South cooperation, and the eminent persons urge UNCTAD to develop a proper forum for this.

10. Fiscal management and revenue utilization

24. In many countries, particularly those where revenues are obtained from fuels, minerals and exploitation of other natural resources, there is considerable room for improvement in fiscal management and revenue utilization which would lead to a greater contribution of the commodity sector to poverty alleviation. This should from now on become part of the policy debate between the Governments of such countries and international financial institutions/the donor community, with a focus on mobilizing substantial resources for institution-building in fiscal management

within a strong governance framework. Commodity-related fiscal risks (both quantity and price) and ways to manage such risks have to be part of the agenda of this policy debate forthwith. Competent organizations such as UNCTAD should do more to stimulate awareness of these issues and possibilities.

11. Risk management

25. Much of the burden of commodity price volatility is now borne directly by producers (with particularly severe effects on the poorest of them). Negative effects are also felt by processors, traders and consumers in developing countries. Producers in particular would benefit strongly from better price risk management — the increased likelihood of not receiving less than a certain price for their products. While not a panacea and requiring proper conditions for use, market-based tools for providing such security exist for a number of commodities.

26. The international community should play a more proactive role in this area. The eminent persons feel that, with some urgency, efforts to create the capacity to manage commodity price instability should become a part of all rural development schemes, along with the various efforts to plan and prioritize development assistance (in particular, the poverty reduction strategies as formulated under the aegis of the United Nations Development Programme (UNDP) and the World Bank, and the Integrated Framework for Trade-Related Technical Assistance to the Least Developed Countries set up in the context of WTO). Donor institutions should provide more support to implement programmes in this area.

C. Long-term recommendation

International export diversification fund

27. Ultimately, in order to drastically reduce poverty, countries need to fully utilize opportunities to diversify their productive capacity (within the commodity sector, including through value addition, and outside the sector). Having access to markets is a necessary condition, but not a sufficient one: they need to develop new supply capacity. The recommendations above should help in this respect. But the ability of countries to move away from excessive dependence on a few commodities would be much strengthened if, for their efforts, they had access to an international diversification fund. This could be linked to an existing institution, such as the Common Fund for Commodities.

28. This fund would focus on developing private sector capacity. In addition to strengthening the institution-building and other relevant activities mentioned earlier, it would develop strong producer associations, with a proper role for the majority of producers (women); develop key infrastructure; and stimulate investments (e.g., by providing risk capital or temporary compensation for certain infrastructural weaknesses).

29. We urge the international community to have a new look at such a fund, and in particular, consider a new mode of financing it. This would be justified given the long-term decline in the terms of trade for commodity exports from developing countries, which implies a real resource transfer to consuming countries.

D. Concluding requests

30. While the eminent persons feel that it is important that national Governments and the international community attach priority to commodity issues, along the lines of the recommendations above, they feel that there are certain areas where the United Nations, and in particular UNCTAD, can itself make significant steps. In this respect, they would like to transmit the following requests:

(a) That the Secretary-General of the United Nations distribute the findings of the eminent persons to the relevant United Nations organizations, in particular UNDP, the international financial institutions and bilateral donors, suggesting that, in the light of the Millennium Development Goals and the importance of commodities for most of the world's poor, they should upgrade the priority that they accord to commodity issues, and informing them that he will contact them again in one year's time with a view to reporting to the General Assembly on how they have adapted their policies and programmes to the needs of the commodities sector;

(b) That UNCTAD explore the possibilities for a new partnership between Governments, private business, producers' and traders' associations, civil society and international organizations in the commodity area, and announce the shape and modalities of such a partnership, as well as concrete steps to implement it, at the forthcoming eleventh session of UNCTAD in June 2004;

(c) That the Secretary-General of UNCTAD contact the heads of the European Commission and the International Monetary Fund in order to convey to them the importance of a properly functioning system of compensatory finance and to invite them to work with UNCTAD with a view to designing a system that meets the criteria set out above;

(d) That the General Assembly assign to a competent organization the responsibility to lead open and transparent discussions with all relevant stakeholders on the creation of a new international export diversification fund, along the lines discussed above.

III. Summary of discussions

A. Background

31. The eminent persons agreed that the seriousness of the problems associated with the volatility of commodity prices and the declining terms of trade could not be overstated. The impact on development efforts of commodity-dependent developing countries was felt at both the macro and the micro levels, increasing the vulnerability of those countries and undermining their efforts to fight poverty.

32. The eminent persons observed that, when principal petroleum and manufactured goods exporters were excluded, the terms of trade of developing countries had declined by more than 20 per cent since 1980. For African countries, which comprised the most commodity-dependent group, the decline was more than 25 per cent. Instability was the other important characteristic of commodity prices. The average monthly deviation from trend had been more than 10 per cent for many commodities of export interest to developing countries. Macroeconomic variables, such as savings and capital accumulation, balance of payments and exchange rates,

public finances and, naturally, employment and growth rates were greatly affected by commodity prices and their reflection in export earnings in commodity-dependent countries. These negative impacts left a long-lasting mark on development prospects, perpetuating the poverty trap generated by dependence on low-value commodity exports. The impact in the other direction was also very important. Large foreign debt burdens and currency devaluations created inducements to increase exports. In most developing countries the commodity sector was the sector most responsive to stimuli of this sort. An inescapable result was increased supplies on world markets, leading to downward pressure on prices.

33. The eminent persons emphasized that dealing with the problems of the commodity sector was a crucial element in reaching the Millennium Development Goals related to poverty reduction, and that that initiative of the General Assembly could provide new impetus to the search for solutions to the commodity problems of developing countries. Commodities had been taken off the predominant place in the international development agenda that they had occupied for many years. Now, commodity issues were once again attracting the attention of the international community. However, international initiatives such as the poverty reduction strategy papers still did not take into account sufficiently the issues associated with the commodity sector.

34. It was important not to lose sight of the consequences in human terms of low commodity prices, particularly for the poorer and less powerful segments of the population, such as the rural poor and women. In that context, food and income security for the poor should be an important objective. An ethical starting point for the discussion should be agreement to increase the possibility of attaining commodity prices that would be remunerative to producers and equitable to consumers. Exploitative practices caused by imbalances between the market power of small producers and large buyers should be prevented.

B. Price trends and volatility

35. It was agreed that it was difficult to generalize about the causes underlying declining commodity price trends and price volatility. Commodities and countries were different and different sets of factors influenced price developments. Variations in exchange rates also introduced problems when assessing the development of commodity prices over the medium and long term. With respect to commodity price volatility it was considered important to include in any analysis such factors as the effect of subsidies and the role of terminal market operations.

36. For several commodities there was a global situation of excess supply, as output had increased at a faster rate than demand and that had contributed to the decline in their prices. In the case of some commodities, a significant factor had been the high subsidization of production, mainly in industrialized countries. In other cases, global oversupply might be a result of a number of factors, such as several countries deciding to increase output at the same time; advice provided by international agencies and by financial assistance programmes; and overoptimistic projections of demand and prices.

37. Part of the decline in real commodity prices over the past decades could be attributed to productivity increases realized for some commodities in some countries. It could therefore be questioned whether the producers in question were

worse off now than decades ago. On the other hand, for many producers who had not been able to increase their productivity and yields and had not been able to diversify, the situation presents itself as one of declining incomes caused by excess supplies. Moreover, a negative trend in terms of trade could be observed for developing countries exporting commodities, and it was clear that commodity producers had not succeeded in retaining the gains of productivity improvements. It was also important to recognize that productivity increases could vary considerably within the same sector, with large modern operations often improving productivity at a faster rate than small producers. Many producers, for instance those in small island countries, also faced specific constraints on productivity growth and diversification owing to climatic, geographical and demographic reasons.

C. Subsidies and trade barriers

38. It was agreed that export subsidies and market-distorting forms of domestic support for agricultural production and exports in developed countries had contributed significantly to output increases and price declines for products subject to such support and affected negatively the shares of developing countries in the markets for those products. Phasing out such forms of support would eliminate major detrimental effects on developing countries' income and growth prospects and considerably enhance export opportunities for developing countries. Developed country tariffs on agricultural products, particularly more processed ones, were high, and other trade measures constituted significant obstacles to market entry for developing country commodity exports. It was also observed that the removal of barriers to trade among developing countries would have significant beneficial effects, inter alia by stimulating the development of new markets and thereby improving market diversification.

D. International cooperation on commodities

39. It was generally recognized that international cooperation between producers and consumers on commodity issues could provide the best opportunity for dealing with commodity problems if political and technical circumstances were favourable. However, such preconditions, particularly for commodity price stabilization actions of the traditional type, were not always present. In the absence of producer-consumer cooperation, it was suggested that producers cooperate among themselves to align supply with demand. Opinions were divided on the prospects for success of actions to limit supplies taken on the basis of cooperation between producers alone, although it was noted that examples of successful cooperation existed, including the one concerning natural rubber involving Indonesia, Malaysia and Thailand. The meeting also discussed the option of national-level measures to limit supplies during a situation of excess supplies and heard some cases of such national-level measures with beneficial results. It was also noted that, in some cases, the best cure for oversupply and depressed prices could be the development of new end-uses rather than the limitation of production.

E. Commodity-based development and diversification

40. The place of primary producers in the value chain was an important issue to consider in the case of commodity-based development and diversification. Improved competitiveness and successful diversification were principal avenues for strengthening that place so that a greater part of the value added is retained in the country. It was generally agreed that horizontal, vertical and geographic diversification was an integral part of the development process in commodity-dependent developing countries and that only a very small number of countries had been successful in basing economic development on the commodity sector, particularly the export of raw commodities, alone. Improved stability of prices would contribute to facilitating the diversification process by reducing risks to producers and allowing them to invest in diversification. It was also emphasized that diversification ultimately had to be the result of decisions taken at the level of individual producers. Diversification policies should enable them to make informed choices. Support for diversification, whether by Governments or by international agencies, should take into account both current and prospective world market conditions and avoid the risk of fallacy of composition. Diversification recommendations should not be based on static comparative advantages, but on dynamic considerations. Diversification was not, however, an end in itself but an element of development strategies. Competitive commodity producers should not have to diversify out of commodity production just because of market distortions such as those introduced by subsidies.

41. The design and implementation of successful diversification policies and strategies could be facilitated by international financial and technical assistance. The important role of the Common Fund for Commodities in financing diversification projects through its second account was recognized and the need to strengthen its financing capacity was emphasized.

42. The eminent persons also recognized that access to reliable information on commodity markets was often a major problem for developing country producers and that the asymmetry in access to information was highly problematic.

43. In the context of commodity-based development and diversification, the importance of sound fiscal management was emphasized, and it was noted that volatility in export earnings and government income tended to have negative impacts on the quality of public expenditure management. Income from commodity exports needed to be invested in human capital to improve prospects for sustainable development. It was noted that the environmental costs and benefits of commodity production also needed to be seen as important elements in designing policies. Moreover, it was important to promote the dissemination of examples of successful policies among developing countries.

F. Policies and measures for recommendation

44. The eminent persons discussed a wide variety of possible recommendations for dealing with the problems of the commodity sector. Their recommendations are presented in section II of the present report.

45. As regards measures to deal with price declines, volatility, the need for diversification and strengthening the contribution of the commodity sector to

development, the eminent persons agreed that it was useful to divide possible actions into three categories: to be taken immediately, in the medium term and the long term. It was recognized that, in many areas, actions in different time perspectives would be complementary. Some commodities — particularly coffee and cotton — posed problems that needed immediate solutions. For others, including most mineral commodities, medium- to long-term solutions were more important. It was argued that actions should target commodities that were going through crises and where the effects were of major significance for countries and vulnerable populations. There were also differences between countries with respect to problems, often as a result of differences in size and institutional capacity. It was therefore noted that there were no solutions that would fit all cases.

46. The desirability of measures to compensate export earnings shortfalls was mentioned repeatedly. It was recognized that previous and existing schemes had suffered from excessive conditionalities. One argument advanced in that context was that schemes based on insurance against shortfalls would be a better approach than ex post compensatory schemes. Such schemes should be backed by market-based instruments such as options to limit cost. Capacity-building measures and crop management systems were also mentioned in that context.

47. The abolition of market boards and other support structures in many countries had led to the disappearance or deterioration of some crucial services such as the provision of information, credit and extension services. It had also weakened the bargaining power of developing country producers. The resulting institutional vacuum needed to be filled. In that context, Governments, the private sector and intergovernmental organizations should play separate but complementary and mutually supportive roles. Attracting investors and investing in research and development were important elements of commodity-based development and diversification strategies.

48. The concept of diversification funds attracted considerable interest. Possible ways of financing such funds were discussed. It was recognized that specific taxation for that purpose was not a realistic option. Concern was also expressed that existing official development assistance funds might be diverted from other purposes. The effort could be made to take the developed countries closer to their Monterrey targets. It was suggested that, as a basis for the allocation of the financing burden among donor countries, their share in developed country commodity imports from affected developing countries could be used. Several options for financing diversification that would be discussed in ICO, including the possibility of introducing a fee on coffee trade, were mentioned.

49. It was agreed that, ideally, measures to limit supply should be undertaken in cooperation between producers and consumers. If that were not possible, however, producers would have to agree on methods among themselves. This would be facilitated if consumers were prepared to abstain from actions to block any such plans. If coordinated action by producers was not possible, production and/or export cuts would have to be implemented on an individual country basis.

50. The relationship between indebtedness and commodity dependence was discussed and it was noted that export earnings shortfalls due to commodity price volatility should be included among the criteria for debt relief. Historical examples of debt being indexed to commodity prices through the issuance of bonds linked to commodity prices were mentioned in this context.

Annex

List of participants

Abdullah bin Mohd. Tahir
Secretary General, Ministry of Primary Industries
Kuala Lumpur

Tony **Addison**
Deputy Director, WIDER
Helsinki

Sylvia **Borren**
Executive Director, NOVIB Oxfam
Amsterdam

Philippe **Chalmin**
Université Paris Dauphine
Paris

Pierre **Defraigne**
Deputy Director-General, Trade, European Commission
Brussels

Getachew **Gebre-Medhin**
Principal Project Manager, Common Fund for Commodities
Amsterdam

Roman **Grynberg**
Commonwealth Secretariat
London

Irfan ul **Haque**
Commodities consultant, Group of Twenty-four

Martin **Khor**
Third World Network
Kuala Lumpur

Jean-Pierre **Landau**
Minister plenipotentiary, French Embassy
London

Herbert **Oberhansli**
Economic and International Relations, Nestlé
Vevey

Francisco **Ourique**
Adviser to the Coffee Committee, Brazilian Congress

H.E. Mandé **Sidibe**
Former Prime Minister of Mali

Clive **Thomas**
Institute of Development Studies, University of Guyana
Georgetown

Robert **Weiner**
Chairman, Department of International Business, George Washington University
Washington, D.C.